CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 1, 2000

H.R. 3615
Rural Local Broadcast Signal Act

As ordered reported by the House Committee on Agriculture on February 16, 2000

SUMMARY

H.R. 3615 would establish a loan guarantee program for certain companies to provide local television service to areas of the country that do not receive local television stations from satellite companies. The bill would authorize the Administrator of the Rural Utilities Service (RUS) at the Department of Agriculture to guarantee loans to qualified borrowers, totaling up to $1.25 billion. The bill would authorize the appropriation of amounts necessary for the costs of the loan guarantees and associated administrative expenses.

Under the bill, one guaranteed loan could be as much as $625 million, but all other loans would have to be $100 million or less. Qualifying loans would be payable in full within the lesser of 25 years or the useful life of the assets purchased. H.R. 3615 would allow the government's guarantee to be subordinate to any private-sector financing and would give RUS broad authority to modify the terms and conditions of loans. The authority to guarantee loans would be contingent upon future appropriation action and would expire on December 31, 2006.

CBO estimates that implementing H.R. 3615 would cost about $365 million for loan subsidy and administrative costs over the 2000-2005 period, assuming appropriation of the necessary amounts. H.R. 3615 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. H.R. 3615 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For the purpose of this estimate, CBO assumes that H.R. 3615 and related supplemental appropriations will be enacted in fiscal year 2000. The estimated budgetary impact of

H.R. 3615 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	5	352	2	2	2	2
Estimated Outlays	2	233	124	2	2	2

BASIS OF ESTIMATE

Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the estimated long-term cost to the government, calculated on a net present value basis (excluding administrative costs). We estimate that the loan guarantees provided under the bill would cost about 28 percent of the total amount guaranteed—or $350 million, subject to the availability of appropriated funds. In addition, CBO estimates that administering the program would cost about $5 million in 2000 and about $2 million in each subsequent year. The bill would authorize the Secretary of Agriculture to charge fees, which could offset some of the subsidy or administrative costs, but this estimate assumes no fees would be charged.

To prepare this estimate, CBO consulted with industry experts and investment analysts and examined the credit ratings of firms in the satellite television and related industries. The information on credit ratings is useful because different credit ratings reflect analysts' expectations of defaults. Based on this information, we assume that the rural television loans likely to be guaranteed under this bill would have a credit risk comparable to debt rated as "B" or "CCC," which typically have default rates ranging from about 30 percent to 45 percent, respectively. We also estimate that provisions in H.R. 3615 allowing the government's guarantee to be subordinate to private-sector financing would increase the subsidy cost of such guarantees. Subordination would reduce the incentive for lenders to assess the riskiness of the loan and increase the likelihood that if a default occurred, the government's loss would be significant. Recoveries from subordinated debt have been lower than recoveries from senior debt in both federal credit programs and the private debt market.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3615 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY: Mark Hadley

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis